

HESPERIA AREA FIRE AUTHORITY

OCEANA COUNTY, MICHIGAN

AUDIT REPORT

For Year Ended March 31, 2004

NICHOLAS D. LAHR
Certified Public Accountant
198 N. Michigan
Shelby, MI 49455

Hesperia Area Fire Authority

Authority Board

March 31, 2004

Chairperson	Alan Daniels, Newfield Township
Clerk	Ellen Smith
Trustee	Don Myers, Newfield Township
Trustee	Ron Ward, Denver Township
Trustee	Jack Burrell, Denver Township
Trustee	Bill Deater, Greenwood Township
Trustee	Ron Stroven, Greenwood Township
Trustee	Robert Doe, Rotating Member

HESPERIA AREA FIRE AUTHORITY

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September 28, 2004

Local Audit and Finance Division
Michigan Department of Treasury
430 West Allegan 4th Floor
Lansing Michigan 48922

Re: Hesperia Area Fire Authority
Audit as of March 31, 2004

Dear Sir:

This report on auditing procedures is written pursuant to Section 7 (2) of the Public Act 2, P.A. of 1968, as amended. We have made an examination of the financial statements of the above-mentioned local unit of government. Our opinion, dated September 28, 2004, with respect to these statements is included in our accountant's report submitted to you under date of September 28, 2004.

In connection with the foregoing examination, we have complied with the minimum requirements as outlined in your publication, "Bulletin for the Audits of Local Units of Government in Michigan" (BUGSLUG), as revised.

In accordance with the provisions of P.A. 275 of 1980, as amended, there are no accumulated deficits in the various fund balances of the above local unit, other than as disclosed in the financial statements including the notes thereto. In addition, we found no substantive instances of noncompliance with the provisions of P.A. 2 of 1968 (the Uniform Accounting and Budgeting Act) as amended, other than as disclosed in the financial statements including the notes thereto, or as described in the report of comments and recommendations as prescribed by the reporting guidelines for instances of noncompliance included in Appendix B of the BUFALUG manual.

I hereby state and affirm that I am a certified public accountant registered to practice in the State of Michigan and an independent insofar as that term is defined in our profession.

We did not issue a report of comments and recommendations.

In our accountant's report for the above-mentioned period, we have expressed a qualified opinion. The Township budgets its property taxes in the year of collection versus year of levy.

In the last previous accountant's report for the local unit, which covered the period April 1, 2002 to March 31, 2003, a qualified opinion was expressed.

Respectfully submitted,

Nicholas D. Lahr
Certified Public Accountant

September 28, 2004

Hesperia Area Fire Authority
Hesperia, MI 49421

INDEPENDENT AUDITOR'S REPORT

We have audited the combined financial statements for Hesperia Area Fire Authority as of and for the year ended March 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above fairly, in all material respects, the financial position of the Hesperia Area Fire Authority as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America and with applicable rules and regulations of any state department or agency..

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole.

Respectfully submitted,

Nicholas D. Lahr
Certified Public Accountant

Hesperia Area Fire Authority
Combined Balance Sheet
All Fund Types and Account Groups
March 31, 2004

Exhibit A

	Governmental Fund Types		Account Groups		
	General Fund		Fixed Asset	Long Term Debt	Totals (Memorandum Only)
Assets					
Cash & Cash Equivalents	\$ 24,264		\$ - 0 -	\$ - 0 -	\$ 24,264
Accounts Receivable					0
Investments					0
Prepaid Insurance					0
Fixed Assets			403,546		403,546
Deposit on Equipment			40,000		40,000
Amount to be Provided for Long Term Debt				233,375	233,375
Total Assets	\$ 24,264		\$ 443,546	\$ 233,375	\$ 701,185
Liabilities and Fund Equity					
Liabilities					
Payroll Liabilities	\$ 641		\$	\$	\$ 641
Due to Other Units	3				3
Long Term Debt	- 0 -		- 0 -	233,375	233,375
Interest Payable					0
Total Liabilities	- 644 -		- 0 -	233,375	234,019
Fund Equity					
Investment in Fixed Assets			443,546		443,546
Fund Balance	23,620				23,620
Total Fund Equity	23,620		443,546	- 0 -	467,166
Total Liabilities and Fund Equity	\$ 24,264		\$ 443,546	\$ 233,375	\$ 701,185

The Notes to the Financial Statements are an integral part of this statement.

Hesperia Area Fire Authority
 Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 All Government Fund Types
 March 31, 2004

Exhibit B

	<u>General Fund</u>
Revenues	
Contributions from Local Governments	\$ 97,384
Interest	721
Other Revenue	2,079
Total Revenues	<u>\$ 100,184</u>
Expenditures	
Payroll	\$ 13,554
Operating Supplies	402
Professional Services	1,786
Contract Services	2,300
Auto Expense	2,436
Telephone	522
Medical Expense	721
Payroll Taxes	6,674
Training	977
Insurance	11,845
Utilities	4,547
Interest	10,369
Maintenance	5,256
Radio Maintenance	284
Building and Grounds	1,023
Miscellaneous	43
Total Expenditures	<u>\$ 62,737</u>
Excess/(Deficiency) of Revenues Over Expenditures	37,447
Other Sources/(Uses):	
Transfer to Fixed Asset Group	(40,000)
Payment to Reduce Debt	(26,435)
Net Excess/(Deficiency)	<u>\$ (28,988)</u>
Fund Balance March 31, 2003	52,608
Fund Balance March 31, 2004	<u><u>\$ 23,620</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Hesperia Area Fire Authority
 Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget to Actual – General Fund Type
 March 31, 2004

	<u>Exhibit C</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/(Under)</u>
Revenues			
Contributions from Local Governments	\$ 102,709	\$ 97,384	\$ (5,325)
Interest		721	721
Other Revenue	5,500	2,079	(3,421)
Total Revenues	<u>\$ 108,209</u>	<u>\$ 100,184</u>	<u>\$ (8,025)</u>
Expenditures			
Payroll	17,000	13,554	(3,446)
Operating Supplies	1,000	402	(598)
Professional Services	1,500	1,786	286
Contract Services	2,000	2,300	300
Dues and Subscriptions	100	0	(100)
Auto Expense	2,750	2,436	(314)
Printing and Publishing	100	0	(100)
Telephone	600	522	(78)
Medical Expense	750	721	(29)
Payroll Taxes	4,500	6,674	2,174
Training	1,000	977	(23)
Insurance	13,000	11,845	(1,155)
Utilities	4,500	4,547	47
Interest	10,800	10,369	(431)
Maintenance	7,000	5,256	(1,744)
Radio Maintenance	500	284	(216)
Building and Grounds	1,000	1,023	23
Licenses and Permits	0	0	0
Miscellaneous	100	43	(57)
Unallocated	5,409		(5,409)
Total Expenditures	<u>73,609</u>	<u>62,737</u>	<u>(10,872)</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>\$ 34,600</u>	<u>\$ 37,447</u>	<u>\$ 2,847</u>
Other Sources/(Uses):			
Transfer to Fixed Asset Group	(1,000)	(40,000)	
Payment to Reduce Debt	(33,600)	(26,435)	
Net Excess/(Deficiency)	<u>\$ 0</u>	<u>\$ (28,988)</u>	
Fund Balance March 31, 2003		52,608	
Fund Balance March 31, 2004		<u><u>\$ 23,620</u></u>	

The Notes to the Financial Statements are an integral part of this statement.

Hesperia Area Fire Authority
Notes to the Financial Statements
March 31, 2004

NOTE A REPORTING ENTITY

The Hesperia Area Fire Authority is a corporation established by agreement among Greenwood, Newfield, and Denver Townships on April 1, 2001. The Hesperia Area Fire Authority was established to provide fire emergency services, and the equipment and personnel for fire protection, and funding in the geographic area of the townships.

The Authority was formed under the powers of the townships pursuant to the provisions of Act 57 of the Public Acts of 1998.

The Hesperia Area Fire Authority is governed by an Authority Board. The Board consists of six members (two from each township) plus a seventh member selected by the other six members from the residents of the township. The members elect a Chairperson and a clerk and annually appoint a fiscal agent.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Authority's significant accounting policies applied in the accompanying financial statements follows. The accounting practices followed by the Authority are those prescribed by the State of Michigan.

1. **Basis of Presentation**

The financial activities of the local unit are recorded in separate funds, categorized and described as follows:

Governmental Funds

General Fund – This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Hesperia Area Fire Authority. Revenues are derived primarily from tax assessments and interest on investments.

Account Groups

General Fixed Assets – This account group presents the fixed assets of the Authority utilized in its general operations.

Assets purchased are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group.

This account group is not a "fund". It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

2. **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets.

Hesperia Area Fire Authority
Notes to the Financial Statements
March 31, 2004

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues that are both measurable and available are recorded when earned. All other revenues are recorded as such when received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

3. Budgets and Budgetary Accounting

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to March 1, the Authority's Board reviews a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain comments.
- c. Prior to March 31, the budget is legally adopted.
- d. Budgets are adopted on the modified accrual basis of accounting. The approved budgets of the Authority were adopted to the line item level.
- e. The budget and approved appropriations lapse at the end of the fiscal year. Expenditures require a new budget approval for the next year.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year the following over expenditures occurred:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Professional Services	1,500	1,786	286
Contract Services	2,000	2,300	300
Payroll Taxes	4,500	6,674	2,174
Utilities	4,500	4,547	47
Building and Grounds	1,000	1,023	23

4. Reporting Entity

The financial statements include all activities of the Authority. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Authority, over which its elected officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Authority's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Hesperia Area Fire Authority
Notes to the Financial Statements
March 31, 2004

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Total Columns on Combined Statements – Overview
Total columns on the combined statements – overview are captioned memorandum only to indicate that they are presented only to facilitate financial analysis; data in these columns do not present financial position in accordance with generally accepted accounting principles. Neither is such data comparable to a consolidation, interfund eliminations have not been made in the aggregation of this data.
6. Fire Protection Assessments
All units are billed annually based on the Township's taxable value for the area covered by the Authority. Currently the assessments are based on a charge of 1 mill of township's prior year taxable value. Taxable values for 2003 are as follows:

Newfield	\$44,352,767
Greenwood	\$19,661,209
Denver	\$48,946,000
Dayton	\$53,897,000
Beaver	\$ 8,470,493

NOTE C CASH AND CASH EQUIVALENTS

The Authority's cash, as shown in the totals (Memo only), is on deposit with one financial institution in various accounts, the detail of the accounts are as follows:

	<u>Balance Per Books</u>	<u>Balance Per Bank</u>
Cash and Cash Equivalents:		
General Fund:		
Checking a/c # 58370	\$ (997)	\$ (997)
Savings a/c # 1382472	3,593	3,593
Savings a/c # 1345685	21,668	21,668
Total General Fund	<u>\$ 24,264</u>	<u>\$ 24,264</u>

All demand deposit and all time deposit accounts are insured to \$100,000 by the Federal Insurance Corporation. All funds held by the Authority at March 31, 2004 are covered by FDIC Insurance.

NOTE D LONG – TERM DEBT

Long term debt consists of ten year promissory note a Mortgage on the land and building. Both loans are held by Shelby State Bank.

The note is payable upon demand. In absence of the lender's demand, the loan is repayable in annual \$20,000 principal payments due on May 30, 2001 through 2010. The annual interest rate is 4.45% and is due quarterly. The note is secured by vehicles and equipment purchased by the proceeds of the loan.

Hesperia Area Fire Authority
Notes to the Financial Statements
March 31, 2004

NOTE D LONG – TERM DEBT - Continued

The mortgage was taken out on June 27, 2002 and matures June 27, 2012. Principle and interest are payable in yearly installments of \$10,235.15. The interest rate is 4.75% annually. The note is secured by the land and building occupied by the Fire Authority.

Year Ended March 31,	Shelby State Bank Mortgage	Shelby State Bank Demand
2005	\$ 10,235.15	\$ 27,111.55
2006	10,235.15	26,221.55
2007	10,235.15	25,331.55
2008	10,235.15	24,441.55
2009	10,235.15	23,551.55
Thereafter	<u>40,940.60</u>	<u>65,124.64</u>
Total Payments	92,116.35	191,782.36
Interest Portion	<u>18,551.50</u>	<u>31,972.36</u>
Principal Portion	<u>\$ 73,564.85</u>	<u>\$ 159,810.00</u>

NOTE E GENERAL FIXED ASSETS

Following is a summary of General Fixed Assets of Hesperia Area Fire Authority:

	Balance <u>04/01/03</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>03/31/04</u>
Land and Buildings	\$104,600	\$	\$	\$104,600
Fire Equipment	<u>298,946</u>	_____	_____	<u>298,946</u>
	\$403,546	\$ -0-	\$ -0-	\$403,546

NOTE F RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.